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RR RUEHGH
DE RUEHIN #0726 0880855
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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 4674
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3635
RUEHBJ/AMEMBASSY BEIJING 6547
RUEHUL/AMEMBASSY SEOUL 8552
RUEHGP/AMEMBASSY SINGAPORE 6860
RUEHKO/AMEMBASSY TOKYO 8604
RUEHML/AMEMBASSY MANILA 9985
RUEHJA/AMEMBASSY JAKARTA 4028
RUEHKL/AMEMBASSY KUALA LUMPUR 3712
RUEHHI/AMEMBASSY HANOI 3261
RUEHBY/AMEMBASSY CANBERRA 4488
RUEHWL/AMEMBASSY WELLINGTON 1747
RUEHHK/AMCONSUL HONG KONG 7791
RUEHGH/AMCONSUL SHANGHAI 0928
RUEHGZ/AMCONSUL GUANGZHOU 0102

UNCLAS TAIPEI 000726

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STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH AND STRATFORD
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, NEW YORK FRB/MARA BOLIS AND SAN FRANCISCO FRB/TERESA
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SUBJECT: Business Scandal Drives Up Taiwan's NPL Ratio

REF: (A) TAIPEI 0049, (B) TAIPEI 0063

¶1. SUMMARY. A business scandal in January (reftels) drove up Taiwan's non-performing loan (NPL) ratio in February, but the ratio remained well below 2.5% and will probably level off or even decline as consumer debt delinquencies are fading and Taiwan banks can easily absorb the bad debt arising from the scandal. END SUMMARY.

NPL Ratios Increase

¶2. Taiwan banks' non-performing loans (NPL) in February increased 5% from January to NT\$413 billion (US\$12.5 billion). Meanwhile, their average NPL ratio rose from 2.28% to 2.38%.

Main Cause: Business Scandal

¶3. Exposure of China Rebar Pacific Group (CRPG) Chairman Wang You-theng's embezzlement of huge sums caused runs on Chinese Bank (where Wang You-theng was Chairman) and failure of several CRPG-affiliated companies (reftels). The scandal prompted Chinese Bank's NPLs to increase in February 2007 by 25% or NT\$3 billion (US\$91 million), far more than increases reported by any other banks. In February 2007, Chinese Bank also reported an increase of NT\$169 million (US\$5 million) in delinquent credit card debt, which accounted for 86% of the banking sector's total increase in credit card bad debt. Chinese Bank's NPL ratio in February increased to 13.4% from 10% in January.

Minor Cause: Some Marginal Cash Card Holders Fail

¶4. Some of last year's delinquent card debtors failed to honor their rescheduling agreements this year and delinquent cash card

debt in February increased by 23% or NT\$2.4 billion (US\$73 million) from January to NT\$12.9 billion (US\$392 million). The delinquent cash card debt ratio rose from 6.2% to 7.7% in the same period. (Overall delinquent credit card debt grew by only 2.5% during the period, mainly due to more prudent credit card issuance policies.)

COMMENT

15. Taiwan's banking sector can easily control the impact of the scandal. The Central Deposit Insurance Corporation (CDIC) has put Chinese Bank to receivership and will sell the bank via open bidding late this year. Other banks have successfully kept their NPL ratios below 2.5% either by putting up additional NPL reserves or simply writing off the new NPLs.

16. The increase in cash card bad debt is probably short-lived and will be followed by leveling-off or a decline in the near future as consumer debt delinquencies are fading. For example, Taishin International Bank (TIB, the largest cash card issuer in Q1 last year) stopped issuing new cash cards in May 2006. Since then, TIB's outstanding cash card loans have dropped 30% to NT\$49 billion (US\$1.5 billion). For the entire banking sector, cash card loans were below two percent of total loan portfolio, against which the average NPL ratio was only 2.38% in February.

WANG